# *Annual Report 1988/1989*

# *British Columbia Petroleum Corporation*

90-00661/

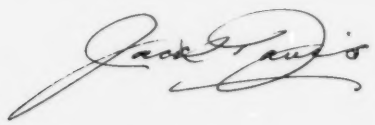
# *British Columbia Petroleum Corporation*

## *LETTER OF TRANSMITTAL*

To His Honour the Honourable David Lam, Lieutenant-Governor of the Province of British Columbia

MAY IT PLEASE YOUR HONOUR:

*I have the pleasure to submit the Annual Report of the British Columbia Petroleum Corporation for the year ended March 31, 1989.*



JACK DAVIS,
Minister of Energy,
Mines & Petroleum Resources,
Province of British Columbia

## *THE CORPORATION*

The British Columbia Petroleum Corporation was established on November 8, 1973, as an agency of the Crown, under the Petroleum Corporation Act. Under the terms of an agreement between Westcoast Energy Inc. and the Corporation, effective November 1, 1973, the Corporation sells natural gas to Westcoast at a price equal to the gross revenue received by that Company on the resale thereof less that Company's cost of service, in respect of gathering, processing and transporting the gas, for the month in which such resale takes place. In addition, the Corporation sells natural gas to other customers at negotiated prices. The revenues from sales of natural gas and by-products are paid into the Natural Gas Price Adjustment Fund for subsequent distribution to producers, as required by the Natural Gas Price Act.

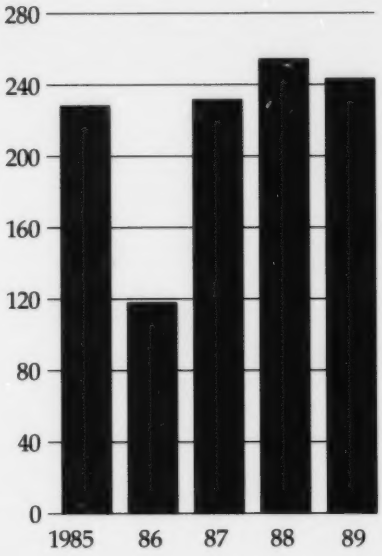
# *Report of the Directors*

The year under review was probably the most difficult in the Corporation's existence. Sales of gas declined by 19.7% from 6,350 million cubic metres to 5,100. The decline occurred in the export market where the actual reduction in deliveries was in excess of 50%.

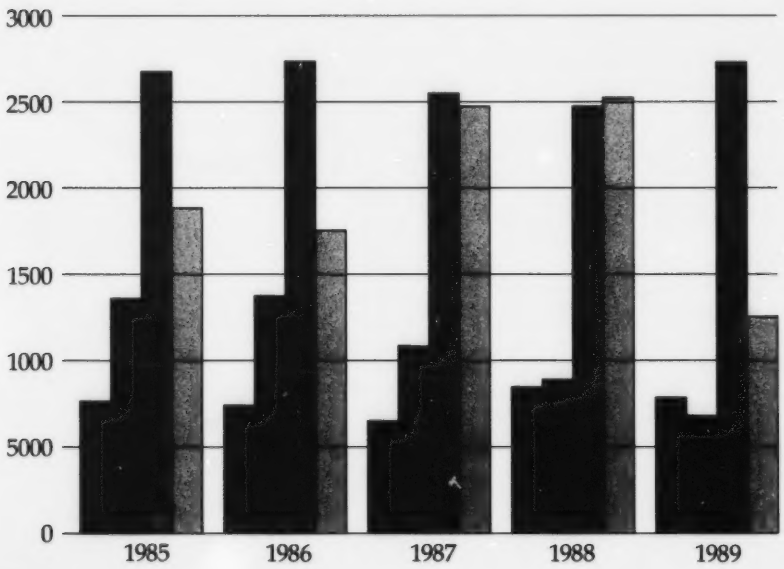
At the end of the previous year it was noted that the adoption on February 10, 1988, of open access by Northwest Pipeline Corporation had led to intense and widespread price competition. This condition continued for the first six months of the present year with prices in many segments of the export market at unacceptable levels and sales volumes at 40% of the previous year. However, during this period Northwest Pipeline continued to pay the allocated fixed charges on the Westcoast Energy system, and this allowed the Corporation to maintain its purchase price of gas, although with lower sales, cash flow to producers was much reduced.

This situation was completely changed by the declaration of force-majeure by Northwest Pipeline in early October, 1988. The allocated fixed charges were no longer being collected and under the Corporation's contract with Westcoast Energy Inc., responsibility for such charges could rest with the Corporation. The effects of this highly damaging development persisted until February 3, 1989, when the National Energy Board approved a settlement of the dispute. The consequences of this further period of uncertainty and confusion in the export market were no less severe on the Corporation than

***Natural Gas Liquids Sales***
(thousands of cubic metres)




***Natural Gas Sales*** (millions of cubic metres)



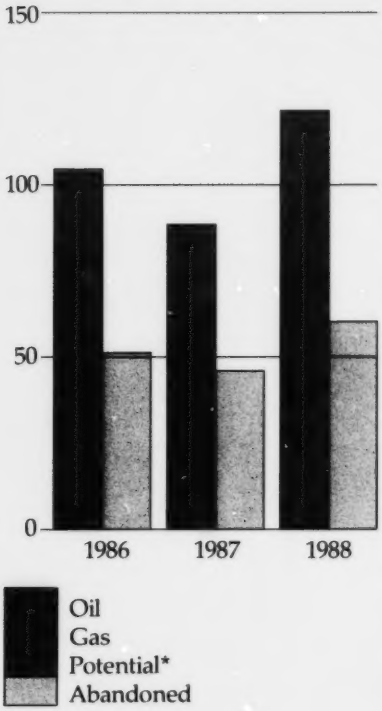

Pacific Northern Gas Ltd.
Inland Natural Gas Company Ltd.
B.C. Gas Inc.*
Exports

*Previously B.C. Hydro Gas Division.

PROVINCE OF BRITISH COLUMBIA

## *Drilling Completions*

(by calendar year)




*A potential well is a cased well which has not been completed.

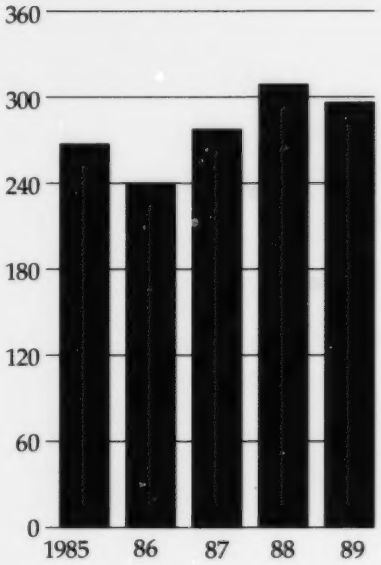
the first half of the year had been. In fact, export sales for this four month period were only 37% of the same period of the previous year. However, the Corporation is pleased that since the settlement exports have recovered and, although the market is still extremely competitive, marketing opportunities are now more clearly defined and the Corporation is confident that, with its high quality gas supply, successful long-term relationships with U.S. customers can be established.

In the domestic market little change occurred. The direct industrial consumers market, mostly supplied by individual producers, is highly competitive but is now providing opportunities for re-entry by the Corporation. The principal contracts under which gas is supplied to the British Columbia utilities expire in just over two years time and it is the Corporation's objective to secure, under long-term agreements, as large a share of this traditional market as possible.

Sales of natural gas liquids outperformed gas by declining only 3.6% to 246,777 cubic metres. The reason for this apparent inconsistency follows from the policy of the Corporation to purchase by-products from producers making direct sales of gas but who are unable to market by-products. Due to the downward pressure on crude oil prices through much of the fiscal year, revenues from these sales were reduced by 30%. Sales of sulphur were similar to the previous year also showing a decline of 2% to 302,398 tonnes. In this case, when end of year inventory is taken into account, sulphur available for sale was almost identical with that of the previous year. Revenues from sales increased by almost 7%.

## *Sulphur Sales*

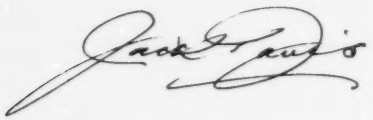
(thousands of metric tonnes shipped)




Last year at this time the Board reported that it had set up a committee to examine proposals that had been received for the privatization of the marketing activities of the Corporation and to make recommendations. A great deal of effort has gone into the whole matter but the Board regrets that it has not been possible to complete arrangements for the transfer of this part of the Corporation's business to the private sector in the year just passed. However, the Board would like to reaffirm

its commitment of privatization and to make known its expectation that the process will be complete within the near future.

After a year of difficult and changing markets, of disappointingly slow progress in privatization, the Board would like to acknowledge the trying circumstances under which all members of the staff performed their duties and thank them for their dedicated and professional approach to the business of the Corporation.



JACK DAVIS,
Chairman

# *Natural Gas Prices*

Under the Natural Gas Price Act, the Minister of Energy, Mines & Petroleum Resources is empowered to set a price, identified as the Producer Selling Price, at which the Corporation purchases natural gas under its contracts with producers, or acquires gas from a producer under an acquisition order. The Corporation may also, by order, establish a Price Adjustment for gas it acquires under a gas contract or an acquisition order. The Price Adjustment is calculated based on the balance of funds remaining in the Natural Gas Price Adjustment Fund after certain costs have been paid as set out in the Natural Gas Price Act. The total of the Producer Selling Price and the Price Adjustment equals the Regulated Selling Price.

The prices paid for gas purchased by the Corporation during the year are shown below:

| | General Producer Selling Price $/10³m³ | General Price Adjustment $/10³m³ |
|---|---|---|
| **1988** | | |
| April-December .... | 53.6422 | 2.0765 |
| **1989** | | |
| January-March ..... | 48.4510 | 1.8342 |

# *Financial Review*

Revenues received by the Corporation on the resale of natural gas and by-products are paid into the Natural Gas Price Adjustment Fund. Payments out of the fund comprise the Corporation's operating expenses and the Producer Selling Prices and Price Adjustments. In this manner, after the payment of the Corporation's cost-of-service, all revenues are flowed back to the producers.

The Petroleum Corporation Fund is also administered by the Corporation. This fund reflects transactions that occurred prior to July 1, 1985, and those transactions which are not governed by the Natural Gas Price Act.

Revenues recorded in the Natural Gas Price Adjustment Fund amounted to $318,049,475 in the year ended March 31, 1989, compared with $398,931,945 in the previous year. Natural gas sales amounted to $287,707,789 compared with $364,008,785 a year earlier. This decrease reflected the marked decline in export sales volumes resulting initially from the adoption by Northwest Pipeline Corporation of an open access form of transportation in early 1988 and, later, by the declaration of force majeure by that company in October of last year. The resulting uncertainty in the export market was subsequently overcome, in large part, by the Corporation's contracting, in early 1989, most of the capacity on the Westcoast system which had previously been used by Northwest Pipeline Corporation.

Revenues from natural gas liquids declined to $15,374,217 from $21,985,953 in the prior year. This reduction reflected the reduced volumes of gas produced in the Fort St. John area and the lower prices received from the resale of the liquids. Regarding the sale of sulphur, revenues increased slightly to $11,537,065 from $10,815,169.

Despite the poor export market, the Corporation was able to maintain the Producer Selling Price and the Price Adjustment at the same levels throughout the 1988 calendar year. However, due to the increased costs resulting from the Corporation's contracting additional capacity on the Westcoast system, these prices were reduced slightly on January 1, 1989. It is hoped that, with the Corporation now becoming an active marketer of gas in its own right, these prices will be maintained for most of 1989.

Sales to the domestic utilities in British Columbia showed little change from a year earlier. The prices paid by the utilities for gas purchased from Westcoast were agreed for the two-year period commencing November 1, 1988. These prices were subject to renegotiation for the contract year commencing November 1, 1989, if written notice was given to this effect on or before May 1, 1989. Prior to this date, notice to renegotiate was in fact given by the domestic utilities.

Net income in the Petroleum Corporation Fund amounted to $5,686,041 in the year ended March 31, 1989, compared with $5,827,200 in the previous year. This income arises from interest earned on the deferred receivable and the investment of surplus funds.

In October 1988, Ocelot Chemicals Inc. (formerly Ocelot Investments Ltd.) paid the indebtedness of that company for unpaid fuel and feedstock gas and the repayment obligations which were in arrears under the debenture with B.C. Petroleum (Kitimat) Ltd. (formerly British Columbia Gas Corporation). Three months earlier, in July 1988, Ocelot Chemicals Inc. had agreed to grant the Corporation, in consideration for its agreement to the transfer of certain assets, the right to amend the schedule under which the debenture is repaid. At March 31, 1989, the Corporation had not exercised this right.

During the year, the Corporation's subsidiary company, previously registered as British Columbia Gas Corporation, was renamed B.C. Petroleum (Kitimat) Ltd.

# *Balance Sheet*

NATURAL GAS PRICE ADJUSTMENT FUND — March 31, 1989

| **ASSETS** | 1989 | 1988 |
|---|---|---|
| Cash | **$ 36,941,499** | $ 47,730,438 |
| Accounts receivable | **44,155,191** | 38,133,493 |
| Prepaid expenses | **4,519** | 8,153 |
| | **$ 81,101,209** | $ 85,872,084 |
| **LIABILITIES** | | |
| Accounts payable and accrued charges | **$ 43,844,803** | $ 37,963,262 |
| Amount available for distribution (Note 2) | **37,256,406** | 47,908,822 |
| | **$ 81,101,209** | $ 85,872,084 |

Approved by the Directors

Director Director

# *Statement of Revenue, Expenditure & Fund Balance*

NATURAL GAS PRICE ADJUSTMENT FUND — Year Ended March 31, 1989

| | 1989 | 1988 |
|---|---|---|
| **Revenue** | | |
| Sales from natural gas, natural gas liquids and sulphur (Note 2) | **$314,619,071** | $396,809,907 |
| Interest | **3,430,404** | 2,122,038 |
| | **318,049,475** | 398,931,945 |
| **Expenditure** | | |
| Natural gas purchases | **298,798,734** | 352,675,110 |
| Price adjustments | **16,681,101** | 18,590,888 |
| Payments for natural gas liquids | **11,095,442** | 18,462,547 |
| Administrative and general expenses | **2,126,614** | 2,076,334 |
| | **328,701,891** | 391,804,879 |
| **Excess of expenditure over revenue** | **10,652,416** | (7,127,066) |
| **Fund balance at beginning of year,** as restated (note 3) | **47,908,822** | 40,781,756 |
| **Fund balance at end of year** | **$ 37,256,406** | $ 47,908,822 |

See accompanying notes to financial statements.

# Notes to the Financial Statements

NATURAL GAS PRICE ADJUSTMENT FUND
March 31, 1989

### *Note 1 — Statutory Requirements*

The Natural Gas Price Adjustment Fund is established by the Natural Gas Price Act, 1985.

### *Note 2 — Significant Accounting Policies*

GAS SALES

Under the terms of an agreement between Westcoast Energy Inc. and British Columbia Petroleum Corporation, effective November 1, 1973, the Corporation sells natural gas to Westcoast at a price equal to the gross revenue received by that Company on the resale thereof less that Company's cost of service, in respect of gathering, processing and transporting the gas, for the month in which such resale takes place. In addition, the Corporation sells natural gas to other customers at negotiated prices. The revenues from sales of natural gas and by-products are paid into the Natural Gas Price Adjustment Fund for subsequent distribution to producers, as required by the Natural Gas Price Act.

CHANGES IN FINANCIAL POSITION

A statement of changes in financial position is not provided as disclosure of such information in these financial statements is considered to be adequate.

### *Note 3 — Prior Period Adjustment*

As a result of an adjustment to the revenues remitted by Westcoast Energy Inc., retroactive to January 1, 1988, the fund balance at March 31, 1988, previously reported as $49,052,812, has been restated to reflect a decrease in income of $1,143,990. The comparative figures for the year ended March 31, 1988, have been restated where applicable.

# Auditors' Report

NATURAL GAS PRICE ADJUSTMENT FUND

*To the Lieutenant-Governor in Council, Province of British Columbia:*

We have examined the balance sheet of the Natural Gas Price Adjustment Fund as at March 31, 1989, and the statement of revenue, expenditure and fund balance for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Fund as at March 31, 1989, and the results of its operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Wolrige Mahon
*Chartered Accountants*

Vancouver, B.C., May 23, 1989

# *Balance Sheet*

PETROLEUM CORPORATION FUND — March 31, 1989

| ASSETS | 1989 | 1988 |
|---|---|---|
| **Current assets** | | |
| Cash | **$ 5,752,910** | $ 7,143,864 |
| Accounts receivable | **6,705,348** | 8,748,216 |
| | **12,458,258** | 15,892,080 |
| **Prepaid gas** (Note 3) | **7,732,225** | 33,125,554 |
| **Property account** (Note 4) | **60,304** | 123,596 |
| **Other assets** | | |
| Deferred receivable (Note 5) | **36,015,564** | 53,240,797 |
| | **$ 56,266,351** | $ 102,382,027 |

| LIABILITIES | | |
|---|---|---|
| **Current liabilities** | | |
| Accounts payable and accrued charges | **$ 83,585** | $ 5,885,302 |
| Deferred liability due within one year (Note 6) | **1,000,000** | 1,000,000 |
| | **1,083,585** | 6,885,302 |
| **Deferred liability** (Note 6) | **1,083,333** | 2,083,333 |
| **Surplus** | **54,099,433** | 93,413,392 |
| | **$ 56,266,351** | $ 102,382,027 |

Commitments (Note 8)

Approved by the Directors

Director — Director

See accompanying notes to financial statements.

# *Statement of Revenue, Expenditure and Surplus*

PETROLEUM CORPORATION FUND — Year Ended March 31, 1989

| | 1989 | 1988 |
|---|---|---|
| **Revenue** | | |
| Interest (Note 7) | **$ 6,447,213** | $ 3,985,694 |
| Miscellaneous income | **84,814** | 106,080 |
| Gain (loss) on prepaid gas (Note 3) | **(702,448)** | 1,834,023 |
| Gain on disposal of assets | **—** | 11,700 |
| | **5,829,579** | 5,937,497 |
| **Expenditure** | | |
| Administrative and general expenses | **143,538** | 110,297 |
| **Net income** | **5,686,041** | 5,827,200 |
| **Surplus at beginning of year** | **93,413,392** | 87,586,192 |
| | **99,099,433** | 93,413,392 |
| **Deduct: Transfers to Provincial Treasury** | **45,000,000** | — |
| **Surplus at end of year** | **$ 54,099,433** | $ 93,413,392 |

See accompanying notes to financial statements.

# *Statement of Changes in Financial Position*

PETROLEUM CORPORATION FUND — Year Ended March 31, 1989

| | 1989 | 1988 |
|---|---|---|
| **Operating activities** | | |
| Operations | | |
| Net income | **$ 5,686,041** | $ 5,827,200 |
| Add (deduct) items not involving a flow of cash: | | |
| — Depreciation and amortization | **83,264** | 148,500 |
| — Gain on disposal of fixed assets | **—** | (11,700) |
| Cash from operations | **5,769,305** | 5,964,000 |
| Recovery of prepaid gas | **25,393,329** | 7,113,151 |
| Transfers to Provincial Treasury | **(45,000,000)** | — |
| | **(13,837,366)** | 13,077,151 |
| **Financing activities** | | |
| Decrease in deferred liability | **(1,000,000)** | (1,000,000) |
| Repayment of long-term debt | **—** | (30,000,000) |
| | **(1,000,000)** | (31,000,000) |
| **Investing activities** | | |
| Property additions | **(19,972)** | (50,887) |
| Proceeds from sale of fixed assets | **—** | 11,700 |
| Decrease (increase) in deferred receivable | **17,225,233** | (5,216,832) |
| | **17,205,261** | (5,256,019) |
| **Changes in non-cash working capital** | | |
| Accounts receivable | **2,042,868** | (4,151,877) |
| Accounts payable and accrued charges | **(5,801,717)** | 2,977,683 |
| | **(3,758,849)** | (1,174,194) |
| **Decrease in cash position during the year** | **(1,390,954)** | (24,353,062) |
| **Cash position at beginning of year** | **7,143,864** | 31,496,926 |
| **Cash position at end of year** | **$ 5,752,910** | $ 7,143,864 |

See accompanying notes to financial statements.

# Notes to the Financial Statements



### *Note 1 — Statutory Requirements*

The Petroleum Corporation Fund is established by the Petroleum Corporation Act, 1973.

### *Note 2 — Significant Accounting Policies*

CONSOLIDATION

The Petroleum Corporation Fund financial statements include the accounts of the Corporation's subsidiary, B.C. Petroleum (Kitimat) Ltd.

DEPRECIATION

Furniture, equipment, automobiles and leasehold improvements are recorded at cost and depreciation is provided at rates considered adequate to amortize the cost over the service lives of the assets. Depreciation is computed on a straight-line basis.

### *Note 3 — Prepaid Gas*

Under its current gas purchase contracts with producers, the Corporation is obligated to purchase and take delivery of, or pay for, a specified minimum annual volume of gas. In the contract years 1980-1988 inclusive, the Corporation was unable to take delivery of the minimum volume of gas and, therefore, is liable to pay for the resulting shortfall (deficiency gas). The Corporation is entitled to take delivery of deficiency gas within a period of ten years from the date incurred, with an adjustment for any increase in the prices prevailing when such gas is delivered.

Prepaid gas outstanding at March 31, 1989, has been calculated at the lower of cost or current value.

### *Note 4 — Property Account*

| | Cost | Accumulated Depreciation & Amortization | 1989 Net Book Value | 1988 Net Book Value |
|---|---|---|---|---|
| Furniture | $421,264 | $394,640 | $ 26,624 | $ 54,318 |
| Automobiles | 50,050 | 23,944 | 26,106 | 37,244 |
| Leasehold Improvements | 251,158 | 243,584 | 7,574 | 32,034 |
| | $722,472 | $662,168 | $ 60,304 | $123,596 |

### *Note 5 — Deferred Receivable*

The deferred receivable of $36,015,564 represents the amount of credit extended to Ocelot Chemicals Inc. as at March 31, 1989, under an agreement with the Corporation and its subsidiary, B.C. Petroleum (Kitimat) Ltd. Of this receivable, which is secured by a first fixed and floating charge on the assets of that company, an amount of $33,518,518 is repayable by way of equal monthly instalments to April 1, 2004, with interest at three quarters of one percent over prime, and an amount of $2,083,333 is repayable by way of equal monthly instalments to April 1, 1991, at the same interest rate.

### *Note 6 — Deferred Liability*

The deferred liability of $2,083,333 represents the deferral, under an agreement with Pacific Northern Gas Ltd., in the payment of a portion of the billing for gas delivered to B.C. Petroleum (Kitimat) Ltd. This amount, including accrued interest at a rate of not less than three quarters of one percent over prime, is repayable over a period of five years which commenced May 1, 1986.

### *Note 7 — Interest*

| | 1989 | 1988 |
|---|---|---|
| Interest Income | | |
| Province of British Columbia | **$1,692,304** | $2,295,961 |
| Other | **4,754,909** | 5,144,653 |
| | **6,447,213** | 7,440,614 |
| Less: Interest expense | — | 3,412,500 |
| Amortization of debt issue expenses | — | 42,420 |
| | — | 3,454,920 |
| | **$6,447,213** | $3,985,694 |

# *Auditors' Report*

PETROLEUM CORPORATION FUND

*Note 8 — Commitments*

(1) Under agreements with producers which waived the Corporation's liability to pay for deficiency gas incurred in 1980, the Corporation is committed to purchase and take delivery of, or pay for, a specified volume of such gas in each year to 1991. At March 31, 1989, the Corporation's aggregate liability under these agreements was estimated at approximately $112,523.

(2) The Corporation has a commitment under an agreement for the lease of office premises extending to September 30, 1989. The aggregate rental payable under leases amounted to approximately $118,700 as at March 31, 1989. An option to renew the lease for a further five year term has been exercised at a rental yet to be determined.

*To the Lieutenant-Governor in Council, Province of British Columbia:*

We have examined the balance sheet of the Petroleum Corporation Fund as at March 31, 1989, and the statements of revenue, expenditure and surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Fund as at March 31, 1989, and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Wolrige Mahon

Wolrige Mahon
*Chartered Accountants*

Vancouver, B.C., May 23, 1989

# *Five Year Summary*

Year Ended March 31

| | **1989** | 1988 | 1987 | 1986 | 1985 |
|---|---|---|---|---|---|
| **Volumes** | | | | | |
| Domestic sales - ($10^3m^3$) | **3,853,605** | 3,822,342 | 4,146,107 | 4,948,419 | 4,894,318 |
| - (Mcf) | **136,035,963** | 134,932,341 | 146,361,570 | 174,683,961 | 172,774,147 |
| Export sales - ($10^3m^3$) | **1,256,892** | 2,528,064 | 2,495,983 | 1,771,653 | 1,886,415 |
| - (Mcf) | **44,369,497** | 89,243,085 | 88,110,615 | 62,541,041 | 66,592,275 |
| Sulphur sales - tonnes shipped | **302,398** | 308,645 | 276,690 | 239,521 | 265,482 |
| Natural gas liquids - ($m^3$) | **246,777** | 255,985 | 231,127 | 191,365 | 227,665 |
| **Average Selling Price of Gas** | | | | | |
| Domestic - $ per $10^3m^3$ | **86.1510** | 82.7464 | 89.8580 | 99.6192 | 92.2243 |
| - $ per Mcf | **2.4405** | 2.3440 | 2.5455 | 2.8220 | 2.6125 |
| Export - $ per $10^3m^3$ | **101.0383** | 94.8111 | 86.8049 | 150.4764 | 159.9602 |
| - $ per Mcf | **2.8622** | 2.6858 | 2.4590 | 4.2627 | 4.5313 |
| **Average Regulated Selling Price** | | | | | |
| - $ per $10^3m^3$ | **56.6829** | 48.4609 | 55.5597 | 70.4299 | — |
| - $ per Mcf | **1.6379** | 1.4003 | 1.6054 | 2.0351 | — |
| **Average Purchase Price of Gas** | | | | | |
| Old gas - $ per $10^3m^3$ | — | — | — | — | 55.4341 |
| - $ per Mcf | — | — | — | — | 1.6018 |
| New gas - $ per $10^3m^3$ | — | — | — | — | 62.3398 |
| - $ per Mcf | — | — | — | — | 1.8013 |

# *Corporate Information*

***DIRECTORS:***

Honourable Jack Davis
*Minister of Energy, Mines & Petroleum Resources*
Chairman of the Board

John P. Crone
*Businessman*
Victoria, B.C.

Larry E. Fisher
*Businessman*
Surrey, B.C.

Hon. Audrey L. Moore
*Mayor of Castlegar, B.C.*

Donald W. Rawlyk
*President*

***SENIOR PERSONNEL:***

Donald W. Rawlyk
*President*

Gordon S. Thomas
*Vice-President, Finance*

Sidney T. Akers
*Vice-President, Gas Supply*

Brian J. Hodgins
*Vice-President, Marketing*

Bruna M. Martinuzzi
*Corporate Secretary & Executive Assistant*

J. Brian Williston
*Chief Engineer*

Neil C. Beaton
*Administrator, Gas Proration*

Gordon A. Pearson
*Comptroller*

***CORPORATE OFFICES:***

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Fax (604) 661-3324
Telex 04-54530

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Vancouver, B.C. V6C 2Z7

***AUDITORS:***

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400 Burrard Street
Vancouver, B.C. V6C 3B7